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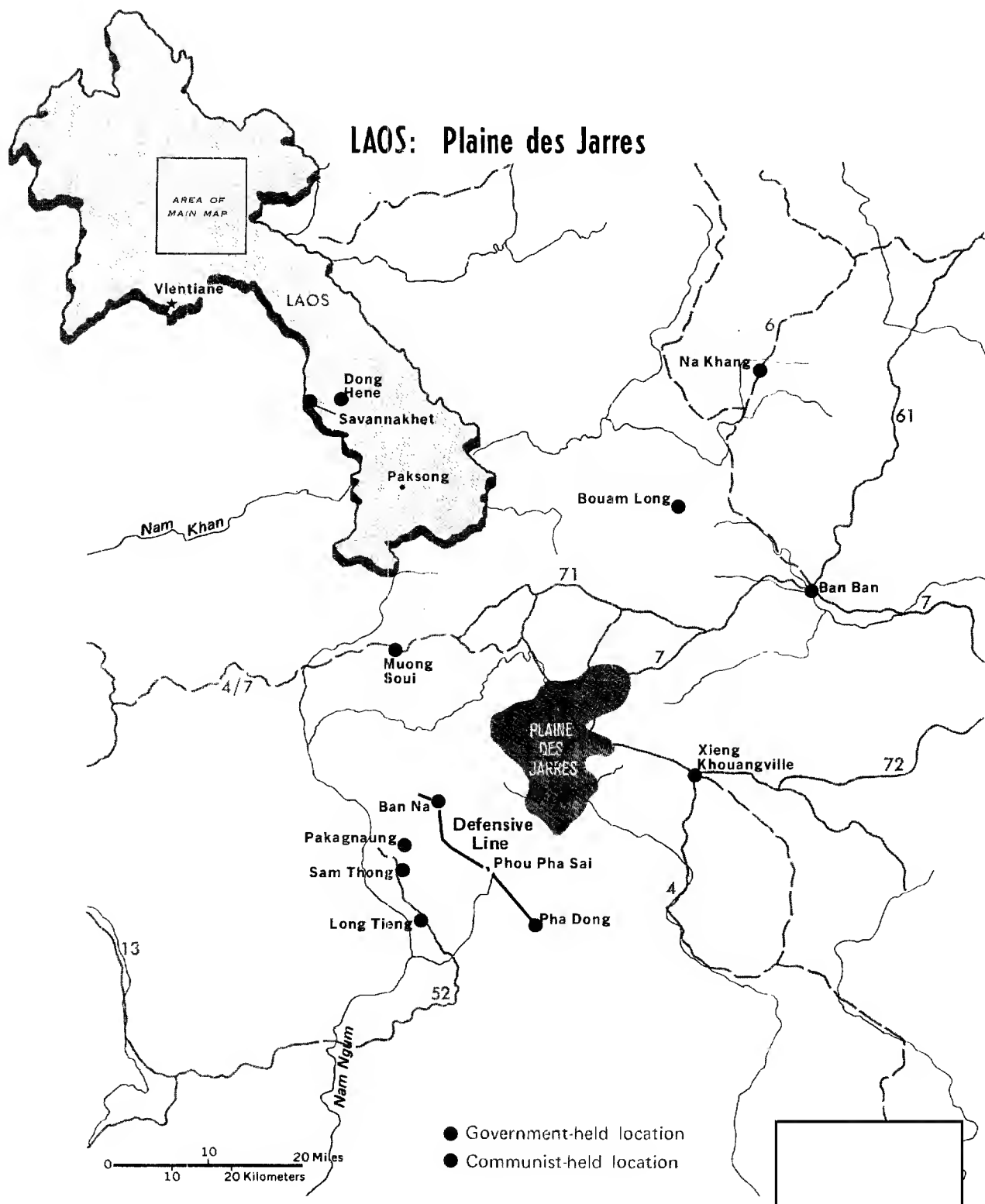
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LAOS: Both government and North Vietnamese forces are moving into position for renewed action around the Long Tieng complex.

A 320-man irregular force is moving three miles north of Sam Thong to take up high ground positions near Pakagnaung; so far it has met no resistance. Two other irregular battalions are moving to close the gap in the defensive line at Phou Pha Sai.

Balanced against these developments, however, is the continuing evidence that the North Vietnamese are gathering their forces for a drive against Long Tieng. Enemy units are still in the Phou Pha Sai area. In addition, captured documents indicate that the North Vietnamese intend to employ their devastatingly effective 130-mm. field guns to support a ground assault on the Long Tieng complex.

Air observers report that Communist infiltration trails into the area southwest of the Plaine are being heavily used. The North Vietnamese are clearly continuing their effort to position men and supplies before the government can regroup its forces and dig in at key defensive sites.

In south Laos, elements of the four Neutralist battalions that abandoned Paksong two days ago have moved back into the town. They report enemy troops on nearby high ground but no contact has occurred. These four battalions, of dubious staying power, now constitute the only defensive force in the Paksong area since the irregular units have been withdrawn to Pakse.

Communist units appear to be maneuvering into position near Dong Hene on Route 9 in the western panhandle. The town has been under sporadic rocket attack for the last week and civilians reportedly have begun to leave the area. Air observers have

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reported that Communist units appear to have by-passed government blocking positions north and south of Dong Hene. Patrol clashes have also increased near Seno, farther west along Route 9, and enemy units may also plan new raids against irregular training sites north of that town. Lao Army commanders reportedly fear that the North Vietnamese offensive is designed to disrupt the Lao National Assembly elections scheduled for 2 January.

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EGYPT: In his year-end policy statement on 28 December, President Sadat attempted to back off from his earlier emphasis on the "decisiveness" of 1971.

Although Sadat reiterated the theme of the inevitability of hostilities in the portion of his speech published by al Ahram, he finessed his own implied deadline for a resumption of hostilities this year by stressing the need to mobilize all resources on the domestic front. Sadat's explicit refusal to be drawn out on the timing of the "battle," as well as his emphasis on the need for further war preparedness measures, are thinly veiled reminders to the Egyptian public that their country is not ready to take on the Israelis.

In contrast to two particularly tough speeches delivered late last month, Sadat devoted greater attention to the need to pursue political efforts along with strengthening the armed forces. He dismissed any consideration of abandoning diplomatic moves, arguing that this would "paralyze" part of the over-all effort to reach a settlement. Although he once again asserted that Washington's efforts to promote negotiations had reached a dead end because of the US bias toward Israel, Sadat foreclosed no options and left the door open for "all diplomatic contacts."

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CHILE: Discontent continues among some army officers, but there is no evidence of a coherent plan to move against the Allende government.

The latest incident between the military and Allende stems from the President's demand for the retirement of the outgoing commandant of the military academy because of his recent provocative speech on the need to defend democracy and liberty in Chile. This presidential interference in internal military affairs is resented, even though the officer in question, Colonel Labbe, is not popular with some of his superiors. He is a controversial figure whose promotion to general has been resisted by several of his peers, and he reportedly has been talking with other officers about the possibility of a coup. In addition, his behavior apparently annoyed Army Chief Prats, himself no great admirer of Allende.

Chilean military commanders have displayed increasing sensitivity to political pressure from both government and opposition in recent months. Many resist it. There is, however, growing evidence of military dissatisfaction over conditions under the Allende government, ranging from worried discontent to outright hostility.

Some participants in the massive women's protest march on 1 December against food shortages were officers' relatives.

Allende, always attuned closely to military attitudes, is doubtlessly aware of most of the dissatisfaction and continues to make reassuring gestures toward officers whom he finds receptive. Some have been made advisers to government agencies or nationalized industries at special salaries and there is recurrent talk that military men will be included in the cabinet soon.

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UK-MALTA: Neither London nor Valletta appears willing at this point to back down from ultimatums which have led to a breakdown in defense and financial talks and a demand that UK forces be withdrawn by 1 January.

After a series of heated diplomatic exchanges over the amount of "rent" to be paid for a continued British presence, London announced yesterday that it is "setting in hand" preparations to withdraw its troops. Britain has pointed out to Prime Minister Mintoff, however, that no plans for withdrawal had been considered previously and that it was certain to require longer than several days. British officials are hoping that, if the pull-out could be stalled sufficiently, the Maltese would realize the economic consequences of such a move and put pressure on Mintoff to reconsider.

Mintoff has already put into high gear his campaign to convince the public of the correctness of his moves. In a speech to the parliament yesterday, the prime minister argued his case so as to make it appear that Britain had reneged on the informal agreement reached in September. Mintoff lashed out at the opposition party, which called for his resignation and for new elections, and decried its "divisive pro-British attitude." An opposition motion to adjourn only until 31 December, rather than to 3 January, was defeated.

With parliament not in session, the opposition will find it very difficult to take any action in these next crucial days. Moreover, the fact that Mintoff appears to have the full support of his cabinet, which approved the final defiant message to London and which attended the parliamentary session en masse, will strengthen his hand. Finally, even if all the details discussed by the two countries are made public, the Maltese leader probably will be able to interpret them in a light unfavorable to Britain.

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(The UK presently has approximately 3,500 military and about 7,000 dependents on Malta. The headquarters for NATO's southern naval command was removed some months ago; thus, no NATO installations--other than a few shared facilities with the British such as radar--are involved.

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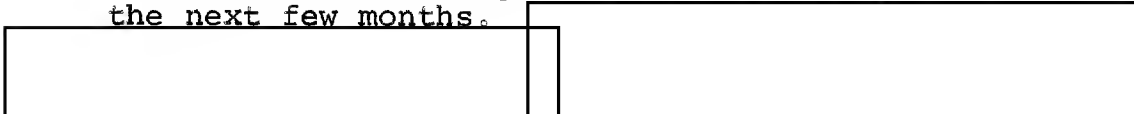
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INTERNATIONAL MONETARY DEVELOPMENTS: About \$1 billion in foreign currencies has been exchanged for US dollars in the major exchange markets of Western Europe, Canada, and Japan since the agreement on realignment of currencies.

Most of this activity reflects profit-taking by speculators and corporate financial managers who have reacquired the dollars they had converted to other currencies during this year's monetary uncertainty. The US dollar has strengthened in nearly all major national markets, forcing some central banks to intervene to prevent the dollar from exceeding its newly established ceilings. The heaviest outflow of dollars has occurred in Japan, followed by France, Canada, and the UK. A cut in the discount rate from 5.25 to 4.75 percent by the Bank of Japan probably contributed to the outflow of funds.

Some of the reacquired dollars have been invested in the US, although the extent is not yet known. The remainder have returned to the Euro-dollar market. A larger switch into dollars is expected early next year after many corporate currency holders complete their year-end bookkeeping. There are estimates that as much as \$10 billion will flow from foreign markets back to the US over the next few months.



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YUGOSLAVIA: Federal and republic governments have resolved their long-standing dispute over allocation of foreign exchange earnings. This will boost the economy and should defuse a troublesome issue facing the new Croatian leadership.

Exporters now will be permitted to retain a minimum of 20 percent of their foreign exchange earnings, compared with the previous base rate of seven percent. The portion of earnings from tourism which can be retained also will be increased from 40 to 45 percent.

Croatian demands to retain a larger share of hard currency earnings played a direct role in the current shake-up of the republic's leadership. Students in Zagreb pounced on the issue as an excuse for a ten-day strike in late November and early December. The Croatians accused the federal government of squandering these earnings on wasteful projects in the nation's underdeveloped areas, thereby contributing to Yugoslavia's chronic hard currency deficit and handicapping Croatia's ability to import up-to-date technology. The less developed republics contended that without hard currency and contributions from the richer republics, they would fall even further behind. The agreement, although largely beneficial to Croatia, apparently will not ignore the less developed republics. It promised to reserve a special place--as yet unspecified--for those regions in the new foreign exchange system.

The basic agreement has yet to be translated into specific laws and regulations, but it is an important step forward in long-term economic liberalization. It also apparently will remove the final obstacles to agreement on the new five-year plan for 1971-75 and the economic policy resolution for 1972.

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ITALY: Newly installed President Leone's rejection of Prime Minister Colombo's pro forma resignation yesterday averted an immediate cabinet crisis but the government still faces serious obstacles.

Colombo faces dissension among the smaller parties allied with the Christian Democrats in the center-left bloc. They have been threatening to demand a showdown on policy and perquisites in the wake of the presidential election.

The small Republican Party is threatening to withdraw from the center-left bloc this week [REDACTED]

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[REDACTED] The party holds too few parliamentary seats to overturn the cabinet by merely withdrawing its votes. The government could feel obliged to resign, however, because all four center-left parties agreed when the Colombo government was formed that the withdrawal of one party would bring about a cabinet resignation.

The Socialists may also be troublesome in the longer run because of the gulf opened between them and their center-left partners in the course of the presidential election. But they probably want to stay in the government at least until their party congress in late February.

The Christian Democrats, the major government party, apparently would prefer to avoid a crisis until after their own party congress in the early spring, while the Social Democrats also appear inclined to avoid precipitous action.

Meanwhile, serious inflationary pressures persist, while production and investment show no clear signs of recovery. Colombo will try to release backlogged public works funds, increase state enterprise investment, and implement approved social reforms. He will be hesitant to commit additional funds for further reforms because of the continuing threat of inflation. [REDACTED]

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VENEZUELA: A major oil company seems set for a showdown with Caracas that could have world-wide repercussions.

In a series of recent moves, Venezuela has greatly increased tax reference values--the basis of oil company payments to the government--and established quotas forcing the companies to maintain exports at the 1970 level, plus or minus two percent. According to the minister of mines, the new policies will yield receipts equal to that of other "short-haul" producing countries and will prevent undue fluctuations in production and revenue. The government presumably will raise the quota in case of extraordinary demand for Venezuelan oil deriving from "emergency situations" in other oil-producing areas. The minister of mines has stated that, in such an event, benefits would now accrue largely to Venezuela.

Some companies--the most important is Creole Petroleum, a Standard Oil of New Jersey subsidiary and the country's largest oil company--maintain that Venezuelan crude oil and products cannot be sold profitably under the new policies. Although Creole considers the new tax reference values to be unrealistic, it is principally concerned with the establishment of mandatory export levels. According to Creole spokesmen, the "whole philosophy" of such quotas "is unacceptable and likely to undermine the entire basis on which private international oil companies operate." The company says that even if tax reference values and penalties for noncompliance with the quotas were modified to ensure profits, it would risk a showdown with the government rather than accept export controls. It is taking a strong stand because it fears that controls would spread "like wildfire" to other producing countries.

The government appears to have an edge in the showdown that Creole predicts will take place in late January. Two international oil companies--Atlantic Richfield and Mobil--already have indicated

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they would probably go along with the export quotas if the government modified its stand on tax reference values and penalties. Smaller firms, which have only limited access to other oil supplies, will have little choice but to do so. Moreover, with 40 percent of Standard's foreign crude coming from Venezuela, it is doubtful that Creole would carry out its threat of shutting down its large, profitable operation.

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BOLIVIA: President Banzer has removed one of his strongest ministers in the first cabinet changes since he seized power in August.

Interior Minister Andres Selich was among the four ministers whose resignations were accepted on 28 December. Selich, who began the revolt against President Torres in August after Banzer was arrested, has been one of the most prominent figures of the present government, but his personal ambitions reportedly disturbed Banzer. Selich has taken strong measures against terrorism and guerrilla activity and has been the target of charges of repression. Before moving against Selich, Banzer took the precaution of requesting and then publicizing messages of support from all armed forces units.

Selich's replacement is Colonel Mario Adet-Zamora, an early ally of Banzer in plotting against President Ovando in 1970. Like Selich, Adet-Zamora is considered strongly anti-Communist. Banzer's other cabinet changes involve ministers who had performed poorly. While improving the quality of the cabinet, Banzer has maintained the distribution of portfolios between the country's two major political parties.

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